

# Grafton Finance Committee

## State of the Town Message June 20, 2020

RECEIVED TOWN CLERK  
GRAFTON, MA

2020 JUN 23 PM 5: 56

This morning the Finance Committee is pleased to report on the state of the town in 2020.

In summary, the town's financial condition is stable. The town's certified Stabilization Fund is 3.7M, within the 5-10% threshold prescribed in our financial policies and adequate to support a stable AA+ bond rating. Our capacity for funding services is healthy, as noted in the town's FY20 audit. There are short and long-term fiscal headwinds that Grafton faces in the coming years as well as some notable economic opportunities.

Short term, the town is facing significant, unforeseen revenue reductions due to the COVID-19 pandemic. The proposed pre-COVID balanced budget was not able to fund level services in all areas. After the COVID-19 impacts, that budget was further reduced by \$618K to reflect an expected drop in state aid and local receipts. There is a material risk of additional reductions in state aid funding in FY21 that could result in additional service reductions in the operational budget. Continued depressed revenues in FY22 will pose risks if the town needs to reduce our stabilization reserves to fund services. To help with unbudgeted needs due to COVID19, such as PPE, school technology and funding for this town meeting, the town is aggressively pursuing federal funding through the Cares Act.

Longer term, the town's demand for services exceeds our ability to grow our revenues. This is largely due to the tax cap imposed by Proposition 2.5 combined with the compensation structure and external cost drivers such as health insurance and unfunded state mandates. The Finance Committee recognizes our structural deficit as a fiscal condition that cannot be quickly addressed. The town needs to strike the right balance between the need for services and affordability. In the upcoming election, voters will choose between supporting an operational override or supporting reductions or elimination of services. Other long term fiscal issues the town faces include unfunded OPEB liabilities, the need for sustainable wage increases, increases in employee benefits, and growing needs for additional staffing in areas such as the fire department.

There is reason for some optimism as we consider what is on the horizon. The town is expecting the addition of Cannabis revenue at some point in FY21, with three companies actively pursuing operational licenses. The town should receive several hundred thousand dollars of new Cannabis revenue annually. Development in Grafton is robust, bringing in new growth funding. The town recently entered into an agreement for the development of the 8 Pine Street property located at the old state hospital. This development opportunity will bring significant investment in Grafton (currently proposed at a valuation greater than \$50M). It will be part of a larger transit-oriented mixed use village area in North Grafton. Mixed use development is tax efficient and will bring some much-needed affordable housing production and modest commercial development to the town.

Overall, balancing the budget for FY21 presented some significant challenges, given the revenue constraints. The proposed operating budget of \$67,618,144. represents an increase of 3.6% over the FY20 budget. The proposed operating budget will meet all contractual obligations and cover our debt obligations, with the help of some service reductions.

The school department FY21 budget is \$37,926,369. The school department's preliminary request was for a 5.9% increase for a level service budget, but budget constraints limited the increase to 3.67%. FY19

was the last year for which the 2014 override provided additional money to the schools. Without this additional funding, the schools are now struggling to meet all their obligations and provide a quality education. The level of available educational funding in FY21 requires the schools to reduce several positions, reduce technology, and freeze administrative salaries and it borders on a line of marginally stable.

Other Town Departments also have significant reductions from requested funding levels. In order to balance the budget, the Town Administrator removed all requested new positions, imposed administrative salary freezes, removed the Economic Development Coordinator position, removed funding for Nelson Library, which will now be funded from the Library trust. Additional reductions were made by removing police cruisers, as well as moving fire and police equipment from the operating budget over to warrant articles that can be funded by free cash if the operational override fail to pass. Finance Committee recommends these items return to the operating budget in the future since they are essential to the everyday operations of the public safety departments and are annual operating expenses.

The Capital budget proposed by the Town Administrator is funded by free cash and transfer of funds from prior articles. It totals \$ \$1,125,470. The primary needs funded by the capital budget are work vehicles for the fire department and DPW, passenger van replacement for the Council on Aging, electrical upgrades in the municipal center and misc small capital projects in the schools. Prior to Articles approved this morning, certified free cash is 1.9M. Free cash has decreased as a percentage of our budget from 4% to 3% in the past 5 years, and since this is one of the primary funding sources for the Capital budget and our stabilization reserve, this decrease is concerning.

In 2020, the average assessed value of a single-family home is \$429K, and the tax rate is \$16.50 per thousand, resulting in an average single-family tax bill of \$6,920. 9.8% of that tax bill is due to debt exclusions, and the tax burden due to debt service rises marginally in the coming years.

In conclusion, Grafton's fiscal health is stable but faces real risks. Economic development is more important than ever as we face short to medium term reductions in state aid due to COVID19. Grafton's annual revenue gap is not easily addressed, and the town needs to be candid and open about our financial condition. Due to this gap, adequate level service funding for essential services such as public safety and education will be challenging in the coming years without voter support for an operational override. Looking further out, we have significant long-term liabilities that must be addressed such as OPEB and Capital program funding.

I would like to thank the Town Administrator, Assistant Town Administrator, the Select Board, Town Accountant, the Superintendent of Schools, the schools' Director of Finance, the School Committee, all Department Heads, the Finance Committee for their help this year. Finally, I would like to announce the retirement of Sue Fiocco, the assistant to the Finance Committee. Sue has been in this position since 1987. We thank her for many years of dedicated service to the Committee and the town. While this is a huge loss, we wish Sue and her husband the best of luck.